

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
DECEMBER 31, 2016 AND 2015

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NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2016 and 2015

Our discussion and analysis of the financial performance of Newman Regional Health provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2016 and 2015. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital's net position decreased by \$401,174 or 4.0 percent in 2016 as compared to an increase of \$1,255,416 or 14.2 percent in 2015.

The Hospital reported an operating loss of \$689,761 in 2016. This compares to an operating income of \$431,602 in 2015.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific operating purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources including all restricted and unrestricted assets and all liabilities using the accrual basis of accounting in a way that helps answer this question. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service provided to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2016 and 2015

Assets, deferred outflows, liabilities, deferred inflows, and net position

The Hospital's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Current assets	\$ 21,932,731	\$ 20,367,192	\$ 19,578,904
Assets limited as to use	16,164,859	1,414,661	1,666,620
Capital assets, net	19,437,991	20,666,902	22,222,486
Other assets	<u>318,589</u>	<u>233,452</u>	<u>290,056</u>
Total assets	<u>57,854,170</u>	<u>42,682,207</u>	<u>43,758,066</u>
Liabilities			
Current liabilities	8,159,247	6,913,877	6,536,959
Long-term debt obligations	<u>22,826,005</u>	<u>8,227,064</u>	<u>9,861,576</u>
Total liabilities excluding net pension liability	<u>30,985,252</u>	<u>15,140,941</u>	<u>16,398,535</u>
Net pension liability net of deferred outflows and deferred inflows of resources related to pension and deferred outflows related to advance debt refunding	<u>17,167,804</u>	<u>17,438,978</u>	<u>18,512,659</u>
Net position	<u>\$ 9,701,114</u>	<u>\$ 10,102,288</u>	<u>\$ 8,846,872</u>

Our liquidity position when measured by the ratio of current assets to current liabilities was 2.7 in 2016, 2.9 in 2015, and 3.0 in 2014. Current assets increased by \$1,565,539 in 2016 and increased by \$788,288 in 2015. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents increased from \$9.25 million in 2015 to \$10.4 million in 2016. The level of patient accounts receivable is impacted by patient revenues generated during the last two months of the year as well as our efficiency in collecting charges. The number of days net revenue invested in net accounts receivable was 48 days in 2016, 48 days in 2015, and 50 days in 2014. Assets limited as to use significantly increased in the current year from the proceeds of the 2016A revenue bonds which will be used to fund an ER expansion and renovation project. The other notable change for the periods presented above is the decrease in capital assets, net. This decrease is a result of depreciation expense exceeding capital acquisitions during 2016 and 2015.

Total liabilities, excluding the net pension liability, increased in 2016 by \$15,844,311 and decreased by \$1,257,594 in 2015. The increase in liabilities is due to the Lyon County Public Building Commission issuing \$19,970,000 in revenue bonds on behalf of the Hospital during October 2016. These proceeds were partially used to advance refund the series 2010 revenue bonds and to provide funds which will be used for renovation and expansion of the Hospital.

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2016 and 2015

The net pension liability, deferred outflows, and inflows related to KPERS was \$17,167,804, \$17,438,978, and \$18,512,659 at December 31, 2016, 2015, and 2014. The changes in these net amounts were actuarially determined by the KPERS's actuary.

Operating results and changes in net position

In 2016, the Hospital's net position decreased by \$401,174, or 4.0 percent as shown in the following table. This decrease is made up of very different components. The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues			
Net patient service revenue	\$ 61,941,392	\$ 58,022,496	\$ 52,632,246
Electronic health records incentive revenue	665,606	259,389	97,762
Other operating revenue	<u>1,294,696</u>	<u>1,337,186</u>	<u>1,765,901</u>
Total operating revenue	<u>63,901,694</u>	<u>59,619,071</u>	<u>54,495,909</u>
Operating expenses			
Salaries and wages	27,325,366	25,450,706	24,292,935
Employee benefits	7,548,047	6,863,421	6,429,993
Actuarial adjustment to pension expense	41,739	(1,073,681)	(343,643)
Supplies and other expenses	25,613,950	23,897,890	20,771,636
Depreciation and amortization	<u>4,062,353</u>	<u>4,049,133</u>	<u>3,904,554</u>
Total operating expenses	<u>64,591,455</u>	<u>59,187,469</u>	<u>55,055,475</u>
Operating income (loss)	(689,761)	431,602	(559,566)
Interest expense	(640,240)	(348,747)	(387,282)
Property taxes	365,000	375,000	425,000
Other nonoperating revenues (expenses)	345,891	247,561	51,736
Capital grants and contributions	<u>217,936</u>	<u>550,000</u>	<u>642,578</u>
Increase (decrease) in net position	<u>\$ (401,174)</u>	<u>\$ 1,255,416</u>	<u>\$ 172,466</u>

The first component of the overall change in the Hospital's net position is the operating income - generally, the difference between operating revenues and expenses incurred to perform those services. We have purposely set out the actuarially determined pension adjustment so our readers may see the impact of this adjustment. The Hospital reported an operating loss of \$689,761 in 2016, a decrease of \$1,001,363 as compared with 2015. If we exclude the impact of the pension adjustment, we would have reported an operating loss of \$648,022, \$642,079, and \$903,209 for the years ended December 31, 2016, 2015, and 2014, respectively. The operating performance of our Hospital is influenced by utilization, availability of physician services, patient access to health insurance coverage, and third-party reimbursement rates.

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2016 and 2015

The Hospital generates approximately 28 percent of its gross revenues from inpatient services and 72 percent from outpatient and physician services. The Medicare program, which accounts for 46 percent of the Hospital's net revenues, reimburses inpatient, swing-bed, and outpatient services based upon a cost reimbursement methodology. Inpatient rehabilitation and physician services are prospectively reimbursed by Medicare.

The Hospital's net patient service revenue increased by approximately 6.8 percent in 2016 as compared to 2015, and by 10.2 percent in 2015 as compared to 2014. The change in net revenues is partially due to increased outpatient and physician volumes and partially due to increased expenses which affects the reimbursement from the Medicare program. Total inpatient days of care (acute, intensive care, swing-bed, rehabilitation, and nursery) was 8,306, 8,382, and 8,579 in 2016, 2015, and 2014, respectively. Due to critical access hospitals being limited to the number of beds that it can make available for patient care, we expect that our growth in the future will be from increased outpatient and physician services.

The change in operating revenues from year to year is also impacted by the amount of payments received from the State of Kansas Medicaid disproportionate share hospital (DSH) program. During 2016, 2015, and 2014, the Hospital qualified for Medicaid DSH payments in the amounts of \$705,755, \$1,328,455, and \$1,258,005. Eligibility for these payments is determined annually and is based upon numerous factors including uncompensated care cost from providing services to the uninsured and Medicaid beneficiaries as compared with other qualifying hospital providers. These funds are essential to offsetting a portion of the loss from treating uninsured and underinsured patients.

Another factor affecting net patient service revenue is the amount of care provided by the Hospital for which no payment is received or expected to be received. Understanding our role as a community member, the Hospital has a policy to automatically provide a 20-percent discount to all uninsured patients. The percentage of gross charges that are written off annually due to uninsured discounts, charity care discounts, and bad debts equaled 5.9 percent in 2016. This compares to 6.2 percent in 2015 and 6.0 percent in 2014. Total discounts granted to uninsured or charity care patients equaled \$3,377,692 in 2016 as compared to \$2,951,080 in 2015 and \$3,059,571 in 2014.

Salaries and benefits are significant components of operations. Total salaries and wages increased by 7.4 percent in 2016, 4.8 percent in 2015, and by 3.6 percent in 2014. The increase in salaries is primarily driven by an increase in FTEs. Employee benefits expense excluding the pension adjustment represented 27.6, 27.0, and 26.5 percent of salary expense. The change in this percentage is largely dependent upon our KPERS funding requirements and the cost of health insurance. Health insurance increased approximately \$680,000 in 2016 and increased approximately \$200,000 in 2015 as compared to prior years. Our KPERS cash funding (excluding the pension adjustment) decreased by approximately \$40,000 in 2016 as compared to 2015, and increased by approximately \$310,000 in 2015 as compared to 2014. Additional information related to the funding of our pension plan can be found in the supplementary information.

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2016 and 2015

Supplies and other expenses increased by \$1,716,060 or 7.2 percent in 2016, increased by \$3,126,254 or 15.0 percent in 2015, and increased by \$1,830,426 or 9.7 percent in 2014. While we have experienced normal inflationary increases in the cost of goods and services each year, we have experienced some specific operating increases. Some specific increases in 2016 were a \$350,000 increase in laboratory provider fees and a \$630,000 increase in drug costs. In 2015, we experienced increased costs related to medical supply and drug expense, therapy services, and various contract labor.

Depreciation and amortization expenses increased \$13,220 in 2016, increased by \$144,579 in 2015, and increased by \$466,709 in 2014. These changes are based on the level of new capital and equipment replacements by year as compared to the property and equipment which becomes fully depreciated.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Newman Regional Health.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Newman Memorial County Hospital

We have audited the accompanying financial statements of the business-type activity and the aggregate discretely presented component unit of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), a component unit of Lyon County, Kansas, as of and for the years ended December 31, 2016 and 2015, which collectively comprise the Hospital's financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Newman Memorial County Hospital d/b/a Newman Regional Health as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. These standards also require that the pension information listed in the table of contents be included to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wendling Noel Nelson & Johnson LLC

Topeka, Kansas
April 12, 2017

FINANCIAL STATEMENTS

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF NET POSITION
December 31,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2016		2015	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash and cash equivalents	\$10,393,073	\$ 222,008	\$ 9,249,520	\$ 387,586
Short-term investments		5,106,062		4,806,592
Assets limited as to use	128,276		128,099	
Patient accounts receivable, net of estimated uncollectibles of \$2,338,800 in 2016 and \$2,486,000 in 2015	8,052,653		7,634,886	
Other receivables	121,217	18,242	879,154	550,250
Inventories	1,722,091		1,380,170	
Prepaid expenses	565,893		665,380	
Estimated third-party payor settlements	949,528		429,983	
Total current assets	<u>21,932,731</u>	<u>5,346,312</u>	<u>20,367,192</u>	<u>5,744,428</u>
ASSETS LIMITED AS TO USE				
Under bond indenture agreements - held by trustee	16,293,135		1,542,760	
Less amounts required to meet current obligations	128,276		128,099	
	<u>16,164,859</u>	<u>-</u>	<u>1,414,661</u>	<u>-</u>
CAPITAL ASSETS, net	<u>19,437,991</u>	<u>21,294</u>	<u>20,666,902</u>	<u>22,312</u>
OTHER ASSETS				
Other receivables	202,603		233,452	
Prepaid bond insurance	115,986			
	<u>318,589</u>	<u>-</u>	<u>233,452</u>	<u>-</u>
Total assets	<u>57,854,170</u>	<u>5,367,606</u>	<u>42,682,207</u>	<u>5,766,740</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pension	5,241,532		1,731,048	
Deferred outflow on advance refunding	312,913			
Total deferred outflows of resources	<u>5,554,445</u>	<u>-</u>	<u>1,731,048</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$63,408,615</u>	<u>\$ 5,367,606</u>	<u>\$44,413,255</u>	<u>\$ 5,766,740</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2016		2015	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 1,193,762	\$ -	\$ 1,631,615	\$ -
Accounts payable and accrued expenses	2,394,724	73,491	2,419,202	582,996
Unearned revenue	1,650,051			
Accrued salaries, vacation, benefits, and payroll taxes	2,537,367		2,080,995	
Interest payable	126,968		22,075	
Accrued health insurance claims	148,375		469,460	
Estimated liability for receivables sold with recourse	108,000		110,000	
Estimated third-party payor settlements			180,530	
Total current liabilities	<u>8,159,247</u>	<u>73,491</u>	<u>6,913,877</u>	<u>582,996</u>
LONG-TERM DEBT, net of current maturities	<u>22,826,005</u>	<u>-</u>	<u>8,227,064</u>	<u>-</u>
NET PENSION LIABILITY	<u>21,690,948</u>	<u>-</u>	<u>17,217,737</u>	<u>-</u>
Total liabilities	<u>52,676,200</u>	<u>73,491</u>	<u>32,358,678</u>	<u>582,996</u>
DEFERRED INFLOWS OF RESOURCES - PENSION	<u>1,031,301</u>	<u>-</u>	<u>1,952,289</u>	<u>-</u>
NET POSITION				
Invested in capital assets - net of related debt	10,087,063	21,294	10,808,223	22,312
Restricted				
For debt service	1,624,296		1,542,760	
For specific operating activities	639	4,501,166	679	4,488,160
Nonexpendable permanent endowments		395,636		395,636
Unrestricted	<u>(2,010,884)</u>	<u>376,019</u>	<u>(2,249,374)</u>	<u>277,636</u>
Total net position	<u>9,701,114</u>	<u>5,294,115</u>	<u>10,102,288</u>	<u>5,183,744</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$63,408,615</u>	<u>\$ 5,367,606</u>	<u>\$44,413,255</u>	<u>\$ 5,766,740</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year ended December 31,

	2016		2015	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Net patient service revenue	\$ 61,941,392	\$ -	\$ 58,022,496	\$ -
Electronic health records incentive revenue	665,606		259,389	
Other	<u>1,294,696</u>		<u>1,337,186</u>	
Total operating revenues	<u>63,901,694</u>	<u>-</u>	<u>59,619,071</u>	<u>-</u>
Operating expenses				
Salaries and wages	27,325,366		25,450,706	
Employee benefits	7,548,047		6,863,421	
Actuarial adjustment to pension expense	41,739		(1,073,681)	
Supplies and other expenses	25,613,950		23,897,890	
Depreciation and amortization	<u>4,062,353</u>		<u>4,049,133</u>	
Total operating expenses	<u>64,591,455</u>	<u>-</u>	<u>59,187,469</u>	<u>-</u>
Operating income (loss)	<u>(689,761)</u>	<u>-</u>	<u>431,602</u>	<u>-</u>
Nonoperating revenues (expenses)				
Investment income	240,783	255,577	168,208	46,632
Interest expense	(640,240)		(348,747)	
Noncapital grants and contributions	103,384	322,345	37,476	921,631
Property taxes	365,000		375,000	
Other	<u>1,724</u>	<u>(467,551)</u>	<u>41,877</u>	<u>(755,539)</u>
Total nonoperating revenues (expenses)	<u>70,651</u>	<u>110,371</u>	<u>273,814</u>	<u>212,724</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	(619,110)	110,371	705,416	212,724
Capital grants and contributions	<u>217,936</u>		<u>550,000</u>	
Change in net position	<u>(401,174)</u>	<u>110,371</u>	<u>1,255,416</u>	<u>212,724</u>
Net position at beginning of year	<u>10,102,288</u>	<u>5,183,744</u>	<u>8,846,872</u>	<u>4,971,020</u>
Net position, end of year	<u>\$ 9,701,114</u>	<u>\$ 5,294,115</u>	<u>\$10,102,288</u>	<u>\$ 5,183,744</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF CASH FLOWS
Year ended December 31,

	2016		2015	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$60,821,550	\$ -	\$57,375,072	\$ -
Payments to or on behalf of employees	(34,738,126)		(32,028,843)	
Payments to suppliers	(26,080,050)		(23,776,603)	
Other receipts and payments	<u>4,399,139</u>		<u>1,366,192</u>	
Net cash provided by operating activities	<u>4,402,513</u>	<u>-</u>	<u>2,935,818</u>	<u>-</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	103,384	872,445	37,476	921,381
Property taxes	365,000		375,000	
Other	<u>73</u>	<u>(994,130)</u>	<u>20,013</u>	<u>(736,693)</u>
Net cash provided (used) by noncapital financing activities	<u>468,457</u>	<u>(121,685)</u>	<u>432,489</u>	<u>184,688</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(2,567,580)		(2,663,331)	
Grants and contributions for capital	217,936		550,000	
Proceeds from sale of equipment	1,651		21,864	
Proceeds from long-term debt	22,413,038			
Interest paid on capital related debt	(290,366)		(354,348)	
Payment of bond financing costs and deferred outflows on advance refunding of bonds	(776,424)			
Principal payments on long-term debt	<u>(8,216,080)</u>		<u>(1,591,216)</u>	
Net cash provided (used) by capital and related financing activities	<u>10,782,175</u>	<u>-</u>	<u>(4,037,031)</u>	<u>-</u>
Cash flows from investing activities				
Change in assets limited as to use	(14,728,895)		266,917	
Change in short-term investments		(328,784)		(210,758)
Interest received	<u>219,303</u>	<u>284,891</u>	<u>180,408</u>	<u>329,995</u>
Net cash provided (used) by investing activities	<u>(14,509,592)</u>	<u>(43,893)</u>	<u>447,325</u>	<u>119,237</u>
Change in cash and cash equivalents	1,143,553	(165,578)	(221,399)	303,925
Cash and cash equivalents at beginning of year	<u>9,249,520</u>	<u>387,586</u>	<u>9,470,919</u>	<u>83,661</u>
Cash and cash equivalents at end of year	<u>\$10,393,073</u>	<u>\$ 222,008</u>	<u>\$ 9,249,520</u>	<u>\$ 387,586</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2016		2015	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (689,761)	\$ -	\$ 431,602	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	4,062,353		4,049,133	
Provision for bad debts	4,887,970		5,316,149	
Changes in				
Patient accounts receivable	(5,305,737)		(5,687,536)	
Inventories	(341,921)		(89,138)	
Prepaid expenses	99,487		(135,901)	
Accounts payable and accrued expenses	1,561,672		631,610	
Estimated third-party payor settlements	(700,075)		(294,037)	
Estimated liability for receivables sold	(2,000)		18,000	
Other receivables	788,786		(230,383)	
Net pension liability, deferred inflows, and deferred outflows related to KPERS	41,739		(1,073,681)	
Net cash provided by operating activities	<u>\$ 4,402,513</u>	<u>\$ -</u>	<u>\$ 2,935,818</u>	<u>\$ -</u>
Supplemental schedule of noncash investing and financing activities				
Net change in unrealized gains and (losses) on investments	\$ 16,595	\$ (29,145)	\$ (1,481)	\$ (283,135)

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) is owned by Lyon County (the County), Kansas, and operated by the Board of Trustees of Newman Memorial County Hospital, a nine-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1922, is a not-for-profit general hospital located in Emporia, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of Lyon County. The component units discussed in Note A2 are included in the Hospital's reporting entity because of the significance of their operational relationship with the Hospital.

2. Component unit

The financial statements include a discrete presentation of financial data of Newman Hospital Regional Health Foundation (the Foundation), a not-for-profit corporation organized to carry out the purposes of the Hospital in betterment and enhancement of the health care services for the citizens of the community. The Foundation is reported in a separate column to emphasize that it is legally separate from the Hospital. The governing body of the Foundation is appointed by the Hospital and can be removed by the Hospital's board at will.

The component unit financial statements have been reconfigured to allow for side-by-side columnar presentation with the Hospital's financial statements.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less excluding any such amounts included in short-term investments or assets limited as to use.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable by type of payor.

7. Property taxes

The County levies a property tax to support Hospital operations. The taxes are levied in November of each year with the Hospital receiving funds beginning in January of the following year. The property tax revenue is recognized in full the year following the year the taxes were levied which is the year in which use is first permitted.

8. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

9. Investments and investment income

Investments in debt and equity securities with readily determinable fair values are measured at fair value in the statement of net position. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in nonoperating revenue when earned.

10. Assets limited as to use

Assets limited as to use include assets held by a trustee under bond indenture agreements.

11. Capital assets

Capital assets, including assets recorded as capital leases and intangible assets, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

12. Cost of borrowing

Interest costs including amortization of bond premium incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

13. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

14. Accrued vacation and other employee benefits

Employees of the Hospital are entitled to paid vacation depending on length of service and whether they are full-time or part-time. Upon retirement, resignation, or termination from service, employees are entitled to payment for all accrued vacation, up to an allowable maximum. The Hospital accrues vacation benefits as earned.

15. Accrued health insurance claims

The Hospital is self-insured for health insurance claims of its employees (Note H). Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience.

Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

16. Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

17. Pension plan

The Hospital participates in the Kansas Public Employees Retirement System Plan (KPERs), a cost-sharing multiple-employer defined benefit pension plan. The Hospital uses information provided by KPERs to measure the net pension liability, deferred outflows of resources, and deferred inflows of resources of the KPERs plan.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

18. Net position

The net position of the Hospital is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the current balances of outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note D. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

19. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

20. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

21. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

21. Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no effect on the changes in financial position.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for inpatient acute care, skilled swing-bed, and certain outpatient services under various cost reimbursement methodologies. Inpatient rehab, hospice, and physician services are prospectively reimbursed based on prospectively determined rates. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2014.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue	\$ 139,387,244	\$ 132,804,272
Deductions from patient service revenue		
Third-party contractual adjustments	(69,727,644)	(67,657,146)
Medicaid DSH and uncompensated pool payments	705,755	1,328,455
Provision for bad debts	(4,887,970)	(5,316,149)
Charity care	(1,851,153)	(1,672,668)
Uninsured discounts	(1,526,539)	(1,278,412)
Other discounts and allowances	(158,301)	(185,856)
Net patient service revenue	<u>\$ 61,941,392</u>	<u>\$ 58,022,496</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 46 percent and 8 percent, respectively, of the Hospital's net patient revenue during 2016 and 47 percent and 8 percent, respectively, of the Hospital's net patient revenue during 2015. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation.

The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from its Medicare cost reports, was \$740,000 and \$620,000 for 2016 and 2015, respectively.

NOTE C - ELECTRONIC HEALTH RECORD INCENTIVE REVENUE

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between Medicare and Medicaid programs.

Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Hospital recognized \$665,606 and \$259,389 of revenue for EHR incentive payments during the years ended December 31, 2016 and 2015, respectively.

NOTE D - ASSETS LIMITED AS TO USE

Under bond indenture agreements - held by trustee

Assets limited as to use by bond indenture agreements are held by a trustee and are stated at fair value. These assets are related to the revenue bond issue (Note F) and consist of the following:

	<u>2016</u>	<u>2015</u>
Principal and interest sinking fund	\$ 128,276	\$ 128,099
Construction fund	14,668,839	
Cost of issuance fund	21,075	
Bond reserve fund	<u>1,474,945</u>	<u>1,414,661</u>
	<u>\$16,293,135</u>	<u>\$ 1,542,760</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE D - ASSETS LIMITED AS TO USE - Continued

Assets are invested by the trustee as follows:

	<u>2016</u>	<u>2015</u>
Money Market Treasury fund	\$16,293,135	\$ 211,265
U.S. Government and Agency obligations at fair value		1,322,828
Interest receivable		8,667
	<u>\$16,293,135</u>	<u>\$ 1,542,760</u>

The bond reserve funds are available for bond principal and interest payments to prevent any default in the payment of principal or interest of the respective bonds or, if not so required, may be used to make the final payments of bond principal and interest.

NOTE E - CAPITAL ASSETS - HOSPITAL

	Balance December 31, 2015	Transfers and additions	Retirements	Balance December 31, 2016
Land	\$ 643,513	\$ 40,621	\$ -	\$ 684,134
Land improvements	622,884		10,934	611,950
Buildings	35,341,871	114,573	697,861	34,758,583
Medical office building	11,611,344			11,611,344
Fixed equipment	9,753,443	586,223	125,121	10,214,545
Future expansion property	840,490			840,490
Rental property		350,779		350,779
Leasehold improvements	236,751			236,751
Major movable equipment	23,076,507	1,127,264	963,830	23,239,941
Totals at historical cost	<u>82,126,803</u>	<u>2,219,460</u>	<u>1,797,746</u>	<u>82,548,517</u>
Less accumulated depreciation and amortization for				
Land improvements	443,313	30,576	10,934	462,955
Buildings	27,486,906	1,165,619	697,861	27,954,664
Medical office building	7,246,920	397,733		7,644,653
Fixed equipment	8,487,771	238,187	125,121	8,600,837
Rental property		5,599		5,599
Leasehold improvements	120,513	24,200		144,713
Major movable equipment	17,848,505	2,200,439	963,830	19,085,114
Total accumulated depreciation and amortization	<u>61,633,928</u>	<u>4,062,353</u>	<u>1,797,746</u>	<u>63,898,535</u>
	20,492,875	(1,842,893)	-	18,649,982
Projects in progress	174,027	613,982		788,009
Capital assets, net	<u>\$20,666,902</u>	<u>\$ (1,228,911)</u>	<u>\$ -</u>	<u>\$19,437,991</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE E - CAPITAL ASSETS - HOSPITAL - Continued

	Balance December 31, 2014	Transfers and additions	Retirements	Balance December 31, 2015
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	542,194	80,690		622,884
Buildings	35,158,080	183,791		35,341,871
Medical office building	11,611,344			11,611,344
Fixed equipment	9,537,101	216,342		9,753,443
Future expansion property	757,610	82,880		840,490
Leasehold improvements	236,751			236,751
Major movable equipment	<u>22,028,867</u>	<u>2,110,003</u>	<u>1,062,363</u>	<u>23,076,507</u>
Totals at historical cost	<u>80,515,460</u>	<u>2,673,706</u>	<u>1,062,363</u>	<u>82,126,803</u>
Less accumulated depreciation and amortization for				
Land improvements	416,463	26,850		443,313
Buildings	26,230,831	1,256,075		27,486,906
Medical office building	6,849,187	397,733		7,246,920
Fixed equipment	8,271,776	215,995		8,487,771
Leasehold improvements	93,591	26,922		120,513
Major movable equipment	<u>16,785,310</u>	<u>2,125,558</u>	<u>1,062,363</u>	<u>17,848,505</u>
Total accumulated depreciation and amortization	<u>58,647,158</u>	<u>4,049,133</u>	<u>1,062,363</u>	<u>61,633,928</u>
	21,868,302	(1,375,427)	-	20,492,875
Projects in progress	<u>354,184</u>	<u>(180,157)</u>		<u>174,027</u>
Capital assets, net	<u>\$22,222,486</u>	<u>\$ (1,555,584)</u>	<u>\$ -</u>	<u>\$20,666,902</u>

As of December 31, 2016, the Hospital had an outstanding commitment to purchase computer software and equipment for approximately \$1.8 million.

The Hospital is also currently in negotiations with contractors for an emergency room expansion and the renovation of certain other areas of the Hospital. Construction is expected to commence in the summer of 2017 with total expected costs of \$14.7 million. This project will be funded by proceeds from the 2016 bond issue that have been set aside in a construction account.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE F - LONG-TERM DEBT

Long-term debt obligations consist of the following:

	<u>2016</u>	<u>2015</u>
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2010-A, issued March 1, 2010, in the original amount of \$14,120,000, 2.50% to 4.00% bonds, defeased in 2016	\$ -	\$ 7,795,000
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2016-A, issued October 31, 2016, in the original amount of \$19,970,000, 3.00% to 5.00% bonds due serially through December 1, 2036	19,970,000	
2.50% Note payable to bank entered into May 14, 2013, in the original amount of \$3,000,000, payable in equal monthly installments of \$39,018, including interest, through August 14, 2020, collateralized by equipment with an amortized cost of \$834,239 at December 31, 2016	1,635,149	2,056,229
2.28% Lease payable to bank entered into December 15, 2016, in the original amount of \$583,708, payable in equal monthly installments of \$10,303, including interest, through December 15, 2021, collateralized by equipment with the cost of \$583,708 at December 31, 2016	<u>583,708</u>	
	22,188,857	9,851,229
Add net unamortized premium on bonds	1,830,910	7,450
Less current maturities of long-term debt	<u>(1,193,762)</u>	<u>(1,631,615)</u>
Long-term debt, net of current maturities	<u>\$ 22,826,005</u>	<u>\$ 8,227,064</u>

The following is a summary of changes in long-term debt:

	<u>Hospital revenue bonds</u>	<u>Notes payable</u>	<u>Total</u>
Outstanding at January 1, 2015	\$ 8,975,000	\$ 2,467,445	\$ 11,442,445
Principal payments	<u>(1,180,000)</u>	<u>(411,216)</u>	<u>(1,591,216)</u>
Outstanding at December 31, 2015	7,795,000	2,056,229	9,851,229
Issuance of long-term debt	19,970,000	583,708	20,553,708
Principal payments	<u>(7,795,000)</u>	<u>(421,080)</u>	<u>(8,216,080)</u>
Outstanding at December 31, 2016	<u>\$ 19,970,000</u>	<u>\$ 2,218,857</u>	<u>\$ 22,188,857</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE F - LONG-TERM DEBT - Continued

Annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,194,661	\$ 870,673	\$ 2,065,334
2018	1,291,825	773,720	2,065,545
2019	1,325,807	737,688	2,063,495
2020	1,205,343	704,292	1,909,635
2021	921,221	673,012	1,594,233
2022 - 2026	4,410,000	2,951,100	7,361,100
2027 - 2031	5,340,000	2,024,550	7,364,550
2032 - 2036	6,500,000	857,550	7,357,550
	<u>\$ 22,188,857</u>	<u>\$ 9,592,585</u>	<u>\$ 31,781,442</u>

On March 1, 2010, the Lyon County Public Building Commission issued \$14,120,000 in Revenue Bonds, Series 2010-A, on behalf of the Hospital. The proceeds of these bonds used together with other funds were used to refund the Series 2001-A, 2001-B, and 2002-A bonds and to pay costs related to the issuance of the 2010-A bonds. These bonds were legally defeased in 2016 when a portion of the proceeds from the 2016 bond issue was placed into a separate trust for the benefit of the 2010 bond holders.

On October 31, 2016, the Lyon County Public Building Commission issued \$19,970,000 in Revenue Bonds, Series 2016-A, on behalf of the Hospital. The proceeds of these bonds were used to advance refund \$7,795,000 of the 2010-A bonds and will fund an emergency room renovation and expansion that has not yet been started. As a part of this transaction, the Hospital recognized a deferred refunding loss of \$336,263 which is reported as a deferred outflow. The refunding loss will be systematically amortized over the years 2016 to 2021, the remaining term of the 2010-A bonds as of the date of the refunding. The net present value cost for the portion of the bonds related to the refunding is expected to be \$23,114. The proceeds from this issue were placed in escrow and will be used to (1) on December 1, 2018, advance refund Series 2010-A bonds scheduled to mature in the years 2016 to 2021, inclusive, in the aggregate principal amount of \$7,795,000, and (2) pay certain costs related to the issuance of the 2016-A bonds. As of December 31, 2016, \$6,585,000 of the 2010-A revenue bonds remained outstanding.

The indenture agreement for the bonds requires the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE G - DEFINED BENEFIT PENSION PLAN

Plan description

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. Substantially all public employees in Kansas are covered by KPERS. Participation by local political subdivisions and entities is optional, but irrevocable once elected. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-800-275-5737.

Benefits

Benefits are established by statute and may only be changed by the Kansas Legislature. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points."

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of an annual actuarial valuation for each of the three state-wide pension groups. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

Effective July 1, 2009, KPERS has two benefit structures and funding depending on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Tier 3 members were first employed in a covered position on or after January 1, 2015. Kansas law establishes the KPERS member-employee contribution rate at 6 percent of covered salary for all members. The employer rates established by statute at December 31, 2016 and 2015, are 9.18 percent and 9.48 percent, respectively. The Hospital employer contributions to KPERS for the years ended December 31, 2016 and 2015, were \$2,188,919 and \$2,225,967, respectively, equal to the statutory required contributions for each year.

Employer and Nonemployer Allocations

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Hospital is included in the local group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the Hospital's share of the collective pension amounts as of December 31, 2016 and 2015, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2016 and 2015, respectively. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. As of December 31, 2016, the Hospital's proportion was 1.4021 percent which was an increase of .091 from its share at December 31, 2015.

Net pension liability

At December 31, 2016 and 2015, the Hospital reported a liability of \$21,690,948 and \$17,217,737, respectively, for its proportionate share of the net pension liability.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of December 31, 2015 and 2014, which were then rolled forward to June 30, 2016 and 2015, using the following actuarial assumptions:

Actuarial assumptions

Price inflation	3.00%
Wage inflation	4.00%
Salary increases, including wage increases	4.00% - 16.00%
Long-term rate of return net of investment expense and including price inflation	8.00%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2015 and 2014 valuations were based on the results of an actuarial experience study conducted for the three-year period ending December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2016, are summarized in the following table:

<u>Asset class</u>	<u>Long-term target allocation</u>	<u>Long-term expected real rate of return</u>
Global Equity	47.00 %	6.80 %
Fixed income	13.00	1.25
Yield driven	8.00	6.55
Real return	11.00	1.71
Real estate	11.00	5.05
Alternatives	8.00	9.85
Short-term investments	2.00	(0.25)
Total	<u>100.00 %</u>	

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

Discount Rate

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State, School, and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the pension plan as of June 30, 2016, calculated using the discount rate of 8.00 percent, as well as what the pension plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current discount rate (8.00%)	1% Increase (9.00%)
Hospital's share of net pension liability	\$ 29,730,951	\$ 21,690,948	\$ 14,873,649

Pension expense

For the years ended December 31, 2016 and 2015, the Hospital recognized pension expense of \$2,230,658 and \$1,152,286, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Deferred Outflows of Resources and Deferred Inflows of Resources

A summary of the collective deferred outflows of resources and deferred inflows of resources at December 31, 2016 and 2015, are included in the tables below. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five-year period.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

	<u>2016</u>	<u>2015</u>
Deferred outflows of resources		
Differences between expected and actual experience	\$ 125,895	\$ -
Net difference between projected and actual earnings on pension plan investments	2,562,348	
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	1,515,368	620,877
Employer contributions subsequent to the measurement date	<u>1,037,921</u>	<u>1,110,171</u>
Total deferred outflows of resources	<u>\$ 5,241,532</u>	<u>\$ 1,731,048</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 391,500	\$ 487,398
Changes of assumptions	202,905	240,637
Net difference between projected and actual earnings on pension plan investments		670,228
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	<u>436,896</u>	<u>554,026</u>
Total deferred inflows of resources	<u>\$ 1,031,301</u>	<u>\$ 1,952,289</u>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2016, that will be recognized in pension expense in future years:

Year ended December 31,	Employer contributions subsequent to the measurement date	Recognition of net deferred outflows/(inflows) of resources by year	<u>Total</u>
2017	\$ 1,037,921	\$ 475,453	\$ 1,513,374
2018		475,453	475,453
2019		1,237,778	1,237,778
2020		840,636	840,636
2021		<u>142,990</u>	<u>142,990</u>
	<u>\$ 1,037,921</u>	<u>\$ 3,172,310</u>	<u>\$ 4,210,231</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE H - EMPLOYEE HEALTH INSURANCE CLAIMS

The Hospital is self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$295,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained an insurance company as its agent to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts covered by reinsurance.

The following is a summary of the activity under this arrangement:

	<u>2016</u>	<u>2015</u>
Estimated employee health insurance claims payable at beginning of period	\$ 469,460	\$ 269,000
Provision for employer's share of incurred claims expenses for the period	3,189,858	2,521,985
Employee contributions	1,022,784	1,006,516
Payments made for claims, expenses, and reinsurance	<u>(4,533,727)</u>	<u>(3,328,041)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 148,375</u>	<u>\$ 469,460</u>

NOTE I - INTEREST EXPENSE

Total interest costs incurred are as follows:

	<u>2016</u>	<u>2015</u>
Total interest incurred	\$ 309,357	\$ 351,644
Amortization of bond premium	(11,231)	(2,897)
Amortization of deferred outflows on advance refunding	23,351	
Amortization of prepaid bond insurance	1,800	
Bond issuance costs incurred	<u>316,963</u>	
Interest expense	<u>\$ 640,240</u>	<u>\$ 348,747</u>

NOTE J - RELATED ORGANIZATIONS

The Foundation periodically transfers funds to the Hospital in support of the Hospital's mission. During 2016 and 2015, the Hospital recorded contribution revenue from the Foundation of \$308,465 and \$579,323, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE K - LEASE COMMITMENTS

Space is leased in the Hospital and the medical office building to various physicians and other medical professionals. Lease income for the years ended December 31, 2016 and 2015, was \$509,945 and \$503,956, respectively. Future minimum lease payments receivable under these agreements are not material to the financial statements.

The Hospital also leases property and equipment under various operating leases with related rentals charged to operations as incurred. Total rent expense for the years ended December 31, 2016 and 2015, was \$215,363 and \$215,088, respectively. Scheduled minimum rental payments for all noncancellable operating leases with remaining terms of one year or more are not material to the financial statements.

NOTE L - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Statutes also require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Hospital's deposits with financial institutions was \$10,387,213 and the bank balance was \$10,902,850 at December 31, 2016. A portion of the Hospital's deposits were unsecured due to significant transactions occurring at year end.

The bank balance is categorized as follows:

Amount insured by the F.D.I.C., bank deposit guaranty bond, or collateralized with securities held by the Hospital in its name	\$ 630,689
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	8,686,894
Unsecured	<u>1,585,267</u>
	<u>\$ 10,902,850</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE M - CONCENTRATION OF CREDIT RISK

The Hospital is located in Emporia, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2016</u>	<u>2015</u>
Medicare	32%	38%
Medicaid	9	10
Blue Cross	18	17
Commercial insurance	18	15
Self-pay	<u>23</u>	<u>20</u>
	<u>100%</u>	<u>100%</u>

NOTE N - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$12,000,000 per occurrence with an aggregate amount in any policy year of \$12,000,000. All coverage is on a claims-made basis. The above policies were renewed in January 2017 for the policy period from January 1, 2017 to December 31, 2017.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE O - RECEIVABLES SOLD WITH RECOURSE

The Hospital has an agreement with a local financial institution under which it sells the Hospital's interest in certain self-pay accounts receivable. Sales under this agreement in 2016 and 2015 amounted to approximately \$256,000 and \$190,000, respectively. At December 31, 2016 and 2015, approximately \$370,000 and \$400,000 of such receivables remained uncollected. The receivables are sold with full recourse, and the Hospital is contingently liable for any uncollected amounts. The Hospital has recorded a liability for receivables sold at December 31, 2016 and 2015, of \$108,000 and \$110,000, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE P - SHORT-TERM INVESTMENTS

The Foundation's short-term investments are carried at fair market value. The investments are classified as available for sale. The cost and unrealized gains (losses) of the Foundation's short-term investments are summarized as follows:

	2016			2015		
	Cost	Gross unrealized gain (loss)	Estimated fair value	Cost	Gross unrealized gain (loss)	Estimated fair value
Common stock						
mutual funds	\$2,119,767	\$ 192,908	\$2,312,675	\$1,081,667	\$ 93,502	\$1,175,169
Common stock	878,964	159,506	1,038,470	1,623,033	283,820	1,906,853
Fixed income						
mutual funds	341,076	(7,323)	333,753	235,913	(6,408)	229,505
U.S. Government						
and Agency						
obligations	650,568	(5,218)	645,350	694,375	(2,560)	691,815
Corporate bonds	780,637	(4,823)	775,814	788,082	(8,363)	779,719
REITs				19,327	4,204	23,531
	<u>\$4,771,012</u>	<u>\$ 335,050</u>	<u>\$5,106,062</u>	<u>\$4,442,397</u>	<u>\$ 364,195</u>	<u>\$4,806,592</u>

NOTE Q - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined according to a hierarchy that gives highest priority to use of observable inputs and lowest priority to use of unobservable inputs. These inputs are described as follows:

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodology used for assets measured at fair value on a recurring basis:

Money market mutual funds, common stock mutual funds, common stock, fixed income mutual funds and REITs, are valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE Q - FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

U.S. Government and Agency bonds and corporate bonds are valued at prices provided by independent pricing services.

The following tables set forth, by level, the assets measured at fair value on a recurring basis for the Hospital.

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash	<u>\$ 16,293,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,293,135</u>
Total assets limited as to use under indenture agreements - held by trustee	<u>\$ 16,293,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,293,135</u>

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash	\$ 211,265	\$ -	\$ -	\$ 211,265
U.S. Government and Agency obligations		<u>1,331,495</u>		<u>1,331,495</u>
Total assets limited as to use under indenture agreements - held by trustee	<u>\$ 211,265</u>	<u>\$ 1,331,495</u>	<u>\$ -</u>	<u>\$ 1,542,760</u>

The following tables set forth, by level, the assets measured at fair value on a recurring basis for the Foundation.

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Common stock mutual funds	\$ 2,312,675	\$ -	\$ -	\$ 2,312,675
Common stock	1,038,470			1,038,470
Fixed income mutual fund	333,753			333,753
U.S. Government and Agency obligations		645,350		645,350
Corporate bonds		<u>775,814</u>		<u>775,814</u>
Short-term investments	<u>\$ 3,684,898</u>	<u>\$ 1,421,164</u>	<u>\$ -</u>	<u>\$ 5,106,062</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2016 and 2015

NOTE Q - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

	December 31, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock mutual funds	\$ 1,175,169	\$ -	\$ -	\$ 1,175,169
Common stock	1,906,853			1,906,853
Fixed income mutual fund	229,505			229,505
U.S. Government and Agency obligations		691,815		691,815
Corporate bonds		779,719		779,719
REITs	<u>23,531</u>	<u></u>	<u></u>	<u>23,531</u>
Short-term investments	<u>\$ 3,335,058</u>	<u>\$ 1,471,534</u>	<u>\$ -</u>	<u>\$ 4,806,592</u>

NOTE R - SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE
NET DEFINED PENSION PLAN LIABILITY

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Hospital's proportion of the net pension liability	1.4021%	1.3113%	1.3564%	1.2942%
Hospital's proportionate share of the net pension liability	\$ 21,690,948	\$ 17,217,737	\$ 16,695,265	\$ 19,700,203
Hospital's covered employee payroll	\$ 23,875,340	22,679,072	22,551,539	21,110,604
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	90.85%	75.92%	74.03%	93.32%
Plan fiduciary net position as a percentage of the total pension liability	68.55%	71.98%	72.56%	64.56%

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
SCHEDULE OF HOSPITAL CONTRIBUTIONS TO DEFINED PENSION PLAN

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 2,188,919	\$ 2,225,967	\$ 1,916,622	\$ 1,682,203	\$ 1,561,800	\$ 1,435,114	\$ 1,240,400	\$ 987,174	\$ 877,357	\$ 715,374
Contributions in relation to the contractually required contribution	<u>(2,188,919)</u>	<u>(2,225,967)</u>	<u>(1,916,622)</u>	<u>(1,682,203)</u>	<u>(1,561,800)</u>	<u>(1,435,114)</u>	<u>(1,240,400)</u>	<u>(987,174)</u>	<u>(877,357)</u>	<u>(715,374)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	<u>\$23,875,340</u>	<u>\$22,679,072</u>	<u>\$22,551,539</u>	<u>\$21,110,604</u>	<u>\$21,340,025</u>	<u>\$21,239,066</u>	<u>\$20,201,477</u>	<u>\$17,757,450</u>	<u>\$17,799,530</u>	<u>\$16,580,301</u>
Contributions as a percentage of covered-employee payroll	9.17%	9.82%	8.50%	7.97%	7.32%	6.76%	6.14%	5.56%	4.93%	4.31%